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Japan's Trade Surplus Drops Again In 1990

Four years ago many American observers doubted that Japan's trade imbalance ever would show a sustained decline over several years. On the contrary, they believed, the surplus would rise inexorably. Even the drop in the value of the dollar that began in 1985 initially appeared to be counterproductive inasmuch as the surplus soared in 1986. Since 1987, however, the surplus has declined steadily. The 1990 customs-clearance trade figures from the Ministry of Finance put the dollar-denominated surplus down 18.5 percent from 1989's number and at its lowest level since 1985's \$46.1 billion outcome (see Table). The downward trend continued in the final quarter of 1990; the 24.5 percent drop on a year-to-year basis in the September-December period was enough to reduce the fourth-quarter imbalance to the lowest level since 1983.

In declining in each of the last four years, net exports reversed the upward movement evident during most of the postwar period; never before during this period had the imbalance shown more than three straight years of decline. (Japan's current account, a broader measure that reflects trade in services as well as trade in goods, has shown a similar trend.) Although the surplus remains high by historical standards, its four-year drop offers partial vindication to those economists who consistently predicted that the surplus would head

downward as the weak dollar made Japanese exports more expensive and imports cheaper. The apparent increase in the surplus in 1985 and 1986, they noted, was a temporary phenomenon arising from exports and imports being valued in cheaper dollars. As the American currency weakened, more dollars were required to represent a given transaction. This fact tended to increase the dollar value of both exports and imports and, because sales abroad initially were larger than purchases overseas, the apparent size of the imbalance. Only in 1987 did the surplus begin falling as measured in dollars, although it dropped in real or volume terms somewhat earlier.

However, the economists' explanation carried an important caveat. Only when other factors were equal would the scenario necessarily unfold as envisaged. Since 1987 other factors have varied, with the effect that the decline in the surplus, while consistent, occasionally has seemed incredibly slow for those who bought the economists' argument. The data for 1990 demonstrate how these other factors have mattered.

For example, the dollar has moved erratically against the yen since 1985. True, it rapidly sank in value through early 1988, but since then the course of the dollar-yen exchange rate has been more unpredictable. In 1989 and part of 1990 the American currency appreciated against the yen. As a result, the decline in the surplus over the short term was exaggerated compared to long-term trends, just as the rise in the surplus in 1985 and 1986 had been. Conversely, the dollar's 1989-1990 rebound appeared to jeopardize the long-term continuation of the decline in Japan's surplus. In 1990 Japanese exports increased 5.6 percent in volume terms, almost as sharp an advance as the real growth in imports, which rose 6 percent. By itself, this development would have meant a bigger surplus, since exports still are larger than imports. However, the price of imports in both dollars and yen increased faster; therefore, imports expanded more than exports.

Last year's near-equal increase of real imports and exports should give pause. Could the 1986 pessimists concerning Japan's surplus be proven correct after all? Probably not. The 1990 trade figures resulted from a combination of a weakening dollar between 1985 and the spring of 1988 and a strengthening dollar from early 1989 until mid-1990. However, in late 1990 and early 1991 the dollar's fortunes reversed again as the American currency sagged against the yen and other currencies. If post-1985 history repeats itself, this development suggests that the surplus in volume terms soon will be heading down again, other factors being equal. But could other factors swamp this effect? Probably not; more likely they will push in the same direction. For example, the weakening U.S. economy will tend to lead to smaller Japanese exports here and to other countries that have a close connection to the U.S. economy. If, as most experts expect, the still-growing Japanese economy continues to pull in more imports, then the surplus would decline even without a change in exchange rates.

The weakness of the American economy was evident in the 1990 figures for U.S.-Japan trade. While imports from the United States continued to rise, dollar-denominated exports to this country showed a rare 3.1 percent drop last year. As a result, the bilateral dollar-denominated trade surplus dipped 15.4 percent to its lowest level since 1984. Should the U.S. recession deepen and Japanese economic growth continue, the same trends could be evident in 1991.

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	\$209,151	19.1%	\$126,408	-2.4%	\$82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1989	275,175	3.9	210,847	12.5	64,328
1990 (p)	286,965	4.3	234,566	11.2	52,399
1988: I	60,279	17.1	44,505	39.2	15,774
II	65,179	14.5	47,260	29.9	17,919
III	67,169	16.1	47,258	23.2	19,911
IV	72,291	14.8	48,331	12.9	23,960
1989: I	68,227	13.2	51,142	14.9	17,085
II	67,602	3.7	51,292	8.5	16,310
III	69,595	3.6	53,048	12.3	16,547
IV	69,751	-3.5	55,364	14.6	14,387
1990: I	66,718	-2.2	54,303	6.2	12,416
II	67,244	-0.5	53,900	5.1	13,344
III	72,244	3.8	56,473	6.5	15,771
IV (p)	80,759	15.8	69,890	26.2	10,869

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	¥35,290	-15.9%	¥21,551	-30.7%	¥13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1989	37,823	11.4	28,979	20.7	8,844
1990 (p)	41,461	9.6	33,820	16.7	7,641
1988: I	7,713	-3.1	5,688	14.7	2,025
II	8,163	0.1	5,918	13.6	2,246
III	8,924	4.9	6,280	11.3	2,644
IV	9,139	5.1	6,121	3.3	3,018
1989: I	8,705	12.9	6,516	14.6	2,189
II	9,222	13.0	6,997	18.2	2,225
III	9,911	11.0	7,547	20.2	2,363
IV	9,985	9.3	7,919	29.4	2,067
1990: I	9,767	12.2	7,929	21.7	1,838
II	10,451	13.3	8,383	19.8	2,067
III	10,659	7.5	8,353	10.7	2,306
IV (p)	10,584	6.0	9,155	15.6	1,429

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	\$80,456	23.3%	\$29,054	12.6%	\$51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1989	93,189	4.0	48,246	14.8	44,943
1990 (p)	90,312	-3.1	52,286	8.4	38,026
1988: I	19,859	10.3	10,090	44.4	9,769
II	21,610	2.0	10,458	37.8	11,152
III	23,056	6.6	10,667	29.3	12,389
IV	25,109	10.3	10,821	25.0	14,288
1989: I	22,726	14.4	11,599	15.0	11,127
II	22,997	6.4	12,064	15.4	10,933
III	24,117	4.6	12,462	16.8	11,655
IV	23,347	-7.0	12,120	12.0	11,227
1990: I	21,664	-4.7	12,728	9.7	8,936
II	20,938	-9.0	12,842	6.5	8,096
III	22,941	-4.9	12,719	2.1	10,222
IV (p)	24,769	6.1	13,997	15.5	10,772

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	¥13,564	-13.0%	¥4,918	-20.9%	¥8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1989	12,816	11.6	6,632	23.1	6,184
1990 (p)	13,055	1.9	7,575	14.2	5,480
1988: I	2,541	-8.8	1,290	19.1	1,251
II	2,706	-10.8	1,309	20.5	1,397
III	3,063	-3.6	1,418	16.7	1,645
IV	3,177	0.9	1,371	14.4	1,806
1989: I	2,899	14.1	1,478	14.6	1,421
II	3,139	16.0	1,648	25.9	1,491
III	3,436	12.2	1,773	25.0	1,663
IV	3,342	5.2	1,733	26.4	1,609
1990: I	3,171	9.4	1,859	25.8	1,312
II	3,254	3.7	1,997	21.1	1,257
III	3,384	-1.5	1,884	6.3	1,500
IV (p)	3,246	-2.9	1,835	5.9	1,411

On balance the 1990 data, taken together with earlier figures, suggest that Japan's trade structure is sensitive to exchange rates, but the complicated connection has led many analysts in recent years to dismiss the effect entirely and others to make too-confident predictions about the early demise of Japan's trade surplus. The early trends for 1991 suggest that another chunk could be taken out of the surplus this year.

Douglas Ostrom

Government Unveils Land Reform Package

The cabinet of Prime Minister Toshiki Kaifu adopted a land reform program January 25 that stresses the necessity of reducing land prices and defining appropriate land uses to expand the supply of land for housing. In a policy speech before the Diet the same day Mr. Kaifu emphasized that land reform would be a top domestic priority this year from both the supply and the demand angle. To this end the government will review the use of farm land within metropolitan areas for housing, revise the assessments used for national property taxes and redraft the laws governing landlord-tenant relations. It also will urge local authorities to monitor land deals more effectively, watching for rapid price increases. Tokyo plans as well to continue to jawbone lenders to restrict loans for speculative real estate transactions. In line with the cabinet decision the Economic Planning Agency is studying the possibility of creating a monthly land price index to serve as an early warning system of rapid increases in property prices.

A Ministry of Construction advisory panel on city planning that is looking at farm land within urban areas has recommended in principle that local governments use their authority to convert most farm land within city limits to sites for housing and public facilities. Its January 23 report suggested, however, that some urban farm land be preserved as green spaces. The ministry plans to submit legislation to the current Diet session to facilitate the use of urban farm land for residential purposes and, at the same time, to give tax breaks for qualified "productive green space." The proposed changes would enlarge the opportunities for serious farmers to qualify their land as "productive green space" and thus get favorable tax treatment; those who do not qualify would face higher taxes.

In line with earlier attempts to narrow the gap between actual real estate prices and appraised values, the National Tax Administration Agency on January 22 boosted the values it uses to assess inheritance and gift taxes on real estate. The average 38.1 percent jump in 1990 for the country's 47 prefectural capitals represented the biggest adjustment since a 42 percent hike in 1962 and topped 1989's increase by 9.1 percentage points. The rise in assessments for Tokyo and Yokohama was relatively small -- up 17.5 percent and 16.1 percent, respectively, although these areas experienced soaring property values in previous years. This time the largest increases were in the Kansai area (the western part of Japan), with assessments climbing 87 percent in Otsu, Shiga prefecture, 78.8 percent in Nara and 76.7 percent in Okayama. NTAA hopes the higher land valuations will help prevent speculation and thus dampen the rise in real estate prices. Critics note, however, that since the higher assessments will mean higher transfer taxes, more land will be sold at prices that only large corporations can afford. However, the prospect of a higher future tax payment can be expected to immediately drop the price of the property by the present value of that tax.

NOTE

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